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MEMORANDUM
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FROM: Steven M. Olea
Director
Utilities Division

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

DATE: August 3, 2012

RE: IN THE MATTER OF THE APPLICATION OF AT&T COMMUNICATIONS OF
THE MOUNTAIN STATES, INC. AND AT&T CORP. FOR APPROVAL OF A
PROPOSED CORPORATE REORGANIZATION AND MERGER
(DOCKET NO. T-02428A-12-0234)

Staff recommends approval of the proposed reorganization and merger by AT&T Communications of the Mountain States, Inc. with AT&T Corp. Staff also recommends that the Certificates of Convenience & Necessity granted by the Arizona Corporation Commission to AT&T Communications of the Mountain States, Inc. be transferred to AT&T Corp.

SMO:AFF:tdp

Originator: Armando Fimbres

Attachment: Original and Thirteen Copies



SERVICE LIST FOR: AT&T COMMUNICATIONS OF THE MOUNTAIN STATES, INC.
DOCKET NO.: T-02428A-12-0234

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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

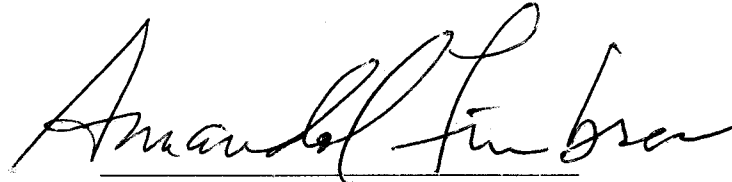
AT&T COMMUNICATIONS OF THE MOUNTAIN STATES, INC.
DOCKET NO. T-02428A-12-0234

IN THE MATTER OF THE APPLICATION OF AT&T COMMUNICATIONS OF THE
MOUNTAIN STATES, INC. AND AT&T CORP. FOR APPROVAL OF A PROPOSED
CORPORATE REORGANIZATION AND MERGER.

AUGUST 3, 2012

STAFF ACKNOWLEDGMENT

The Staff Report for AT&T Communications of the Mountain States, Inc., Docket No. T-02428A-12-0234, was the responsibility of the Staff member listed below.

A handwritten signature in black ink, reading "Armando Fimbres". The signature is fluid and cursive, with the first name "Armando" and last name "Fimbres" clearly distinguishable.

Armando Fimbres
Public Utility Analyst V

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BACKGROUND

On June 8, 2012, AT&T Communications of the Mountain States, Inc. ("AT&T Mountain States") and its parent, AT&T Corp., (collectively, the "Applicants") filed an application seeking approval by the Arizona Corporation Commission ("ACC" or "Commission") for the proposed merger of AT&T Mountain States into AT&T Corp. pursuant to the A.A.C. R14-2-801, et seq. (the "Affiliated Interest Rules") and A.R.S. § 40-285. The Applicants also request that the Certificates of Convenience & Necessity ("CC&Ns") granted by the Commission to AT&T Communications of the Mountain States, Inc. be transferred to AT&T Corp. On June 28, 2012, the Applicants filed a Supplement to their Application to clarify a Decision Number referenced in their June 8, 2012 Application.

THE PARTIES

AT&T Mountain States is a Colorado corporation with headquarters at One AT&T Way, Bedminster, N.J. 07921. It is a wholly-owned subsidiary of AT&T Corp. AT&T Mountain States currently provides facilities-based local exchange and long distance telecommunications services in Arizona pursuant to CC&Ns granted in Decision No. 53880 (January 3, 1984), Decision No. 59445 (December 20, 1995), and Decision No. 60042 (February 5, 1997).

AT&T Corp. is a New York corporation with headquarters at One AT&T Way, Bedminster, N.J. 07921. AT&T Corp. is a wholly-owned subsidiary of AT&T Inc. (formerly SBC Communications Inc.), one of the largest providers of telecommunications services in the world. AT&T Corp., through its subsidiaries, is authorized to provide domestic and international telecommunications services throughout the United States.

THE TRANSACTION

AT&T Corp. is the sole stockholder of AT&T Mountain States. The proposed transaction will involve only AT&T affiliates. AT&T Corp. will merge with AT&T Mountain States, with the surviving entity being AT&T Corp. The Applicant is expected to implement the reorganization on or about October 31, 2012.

The proposed merger is entirely internal to AT&T Inc. AT&T Inc. will remain the ultimate corporate parent of AT&T Corp. The indirect ownership and control of the assets and operations used to provide regulated services in the State of Arizona will not change. The merger requires no new financing or re-financing and, therefore, will have no impact on AT&T Corp.'s ability to raise capital or its cost of capital.

The merger should be seamless and transparent to Arizona customers. There will be no change in the rates or terms and conditions under which AT&T Corp., through AT&T Mountain States, currently serves customers either under tariff or contract as a result of the merger. Once the merger is complete, the same personnel who manage these services will continue to do so and there will be no change in the network assets used to provide these services. As the surviving entity, AT&T Corp. will make any necessary name changes to tariffs. The only

change that customers may notice will be a change in the name of their provider - from AT&T Mountain States to AT&T Corp.

Beginning June 1, 2012, AT&T Mountain States began providing customers bill message notices of the name change. When concluded, the proposed merger will result in a more streamlined corporate structure.

STAFF ANALYSIS

The Applicants submitted the information required by A.A.C. R14-2-803.A.1-11. Given this information, Staff does not believe the proposed reorganization will negatively impact the operations of AT&T Mountain States.

A.R.S. § 40-285 requires public service corporations to obtain Commission authorization to assign or dispose of a utility's assets as proposed by the merger in this transaction. The statute serves to protect captive customers from a utility's act to dispose of any of its assets that are necessary for the provision of service; thus, it serves to preempt any service impairment due to disposal of assets essential for providing service. The proposed reorganization will only change the ownership of AT&T Mountain States assets by AT&T Corp. from indirect to direct. As such, Staff does not believe the proposed reorganization will negatively impact the operations of AT&T Mountain States.

The proposed reorganization requires Commission approval of the transfer of CC&Ns, granted in Decision Nos. 53880, 59445 and 60042, from AT&T Mountain States to AT&T Corp. Since the proposed reorganization will not result in a change in assets, services or management, customers will not be impacted.

RECOMMENDATIONS

Staff recommends approval of the proposed reorganization. Additionally, Staff recommends approval of the transfer of AT&T Mountain States' CC&Ns granted in Decision Nos. 53880, 59445 and 60042 to AT&T Corp.